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porations. From this fault Dr. Whitten's book is happily free, and, while expressing his own convictions strongly, he still recognizes the honesty of purpose of men of other views and sets forth their arguments with palpable fairness and toleration.

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Auditing: Theory and Practice. By ROBERT H. MONTGOMERY.
(New York: The Ronald Press Company. 1912. Pp. xxix, 673.)

For many years the standard handbook on auditing was Lawrence R. Dicksee's *Auditing*; this and Pixley's work of the same name constituted the major portion of the literature on this subject outside of the periodicals. The next step was the bringing out of *Dicksee's Auditing*, an American edition, by Robert H. Montgomery, the author of the book under review. He omitted many parts which applied particularly to British conditions and rewrote other parts to bring them into harmony with American experience and ideas; and this revision has served the accounting public fairly well for seven years. But the American idea of what constitutes the scope of an audit and American practice have been so different from that of our British cousins that there has been felt the need of a book on auditing written entirely from the American viewpoint. The author attempts such a book in the present volume.

There are thirty-five chapters. The first six dispose of such general preliminary subjects as the purpose of the book, the purposes and advantages of an audit, the auditor's qualifications and duties, the ethics of the profession, and "how to begin an audit." The body of the volume, twenty-three chapters, divides itself into three parts: namely, the general procedure in an audit; special points which pertain to the audit of various types of business; and special investigations for particular purposes. Six chapters on the accounts of holding companies, interest, the liabilities of auditors, the liabilities of directors, the corporation tax law, the partnership tax act, and certified public accountant laws and examinations bring the work to a close.

A noteworthy feature is the author's conception of the purposes and scope of an audit. If we consider the whole field of accounting we shall find that it is divisible into four parts:

(1) Constructive accounting, in which the accountant constructs a system of accounts for a particular business, defining

each account, and also devises a system of books in which to compile these accounts and a system of vouchers and reports with which to gather the data to be compiled;

(2) Bookkeeping, in which the system of vouchers and reports, system of books, and system of accounts provided by the constructive accountant are put to actual use in recording business transactions and business operations as they may occur;

(3) Inspective accounting, which consists of a review of the work done by the bookkeepers to detect and correct errors, and of a verification of the existence of the assets and liabilities alleged in the accounts;

(4) Interpretative accounting, in which the meaning is extracted from the verified accounts.

The last is the most important; all the others exist for it. It involves not only the preparation of balance sheets, showing the capital of the business and of what it consists and throwing light on the question of solvency; and income sheets, showing the operating revenues and expenses and the disposition of the net revenues; but also the preparation of all sorts of statements to explain the economy of operation (or lack of it) and causes.

In Dicksee's book, auditing is almost confined to "inspective accounting" as described above, but taking in just enough of "interpretative accounting" to permit the certification of a *pro forma* balance sheet accompanied by a profit and loss statement. Montgomery, however, relegates the detection of fraud and errors to the list of *minor* purposes of an audit. The relative position of present-day purposes he considers to be as follows (p. 9):

- (1) To ascertain the actual financial condition and earnings of an enterprise for
 - (a) Its proprietors (partners or stockholders);
 - (b) Its executives (managers, officers, or directors);
 - (c) Bankers or investors who are considering the purchase of securities;
 - (d) Bankers who are considering the discounting or purchasing of its promissory notes.
- (2) The detection of fraud or errors.

This emphasis upon "interpretative accounting" is also evident in the author's discussion of general procedure in an audit. He finds that there are two kinds of audits, "detailed audits" and "balance sheet audits." The detailed audit includes, in addition to a verification of the balance sheet and profit and loss statement, a review of the work of the bookkeepers; and is made when a complete examination of the condition and operations

of a business is desired or desirable. It applies particularly to those organizations which do not have a complete system of internal check, and until a few years ago constituted the chief work of the auditor. But the tendency of present-day auditing in the United States is strongly toward the second type, the balance sheet audit, which represents a much more valuable service to the client. This consists of a verification of the assets and liabilities and such an analysis of the profit and loss account as will enable the auditor to certify that it has been properly stated, but in addition, the preparation of many different kinds of statements showing the condition of the business and the economy of its operations. Ten chapters are devoted to a detailed treatment of the methods involved.

The author's treatment of "special points in the different classes of audits," though enriched by being written in the light of his own experience, follows the lines laid down in *Dicksee's Auditing*. In the two chapters devoted to the important subject of investigations, or examinations made for special purposes, the author, while reproducing the material of the earlier work, again rewritten in the light of his own experience, has added two valuable sections, one dealing with investigations for creditors—bankers and commercial creditors—the other with methods of perpetrating frauds in accounts and of investigating them. The chapter on The Liability of Auditors is a digest of the decisions in English cases together with the author's summary of the general principles governing the auditor's liability and a joint opinion of eminent counsel in interpretation of the clauses in the English Companies act of 1907 in so far as they apply to the auditor's duties.

The reviewer has heard expressions of disappointment that the author has not copiously illustrated his discussion by means of numerous concrete examples drawn from his own experience. Probably to have done so would have added much to the educational value of the book (as well as to its bulk), for truths can be much more readily grasped and appreciated when conveyed in concrete illustrations. Notwithstanding this lack, the reviewer considers that *Auditing: Theory and Practice* has not only made several valuable contributions to the written thought on this subject, but that it is the most valuable handbook on auditing published.

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